

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Tom McClintock
Christine Kehoe



Hearing Outcomes

Wednesday, March 2, 2005
1:30 p.m.
Room 2040

(Consultant: Brian Annis)

Technology, Business, and Housing

| <u>Item</u> | <u>Department</u> | <u>Page</u> |
|--------------------------------------|---|-------------|
| 0520 | Business, Transportation & Housing Agency | 2 |
| 1955 | Department of Technology Services / Teale Data Center (1955)..... | 5 |
| 2100 | Department of Alcoholic Beverage Control | 8 |
| 2180 | Department of Corporations | 9 |
| 2240 | Department of Housing and Community Development | 13 |
| 2310 | Office of Real Estate Appraisers | 18 |
| 2320 | Department of Real Estate | 19 |
| | Attachments – Trailer bills related to Housing and Community Development | 21 |
| Proposed Consent Calendar | | |
| 2120 | Alcoholic Beverage Control Appeals Board..... | 1 |
| 2150 | Department of Financial Institutions | 1 |

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

Department Budgets Proposed for Consent / Vote Only

2120 Alcoholic Beverage Control Appeals Board

The Alcoholic Beverage Control Appeals Board consists of three members appointed by the Governor. The Board provides a forum of appeal to persons who are dissatisfied with the Department of Alcoholic Beverage Control's decision to order penalties or issue, deny, condition, transfer, suspend or revoke any alcoholic beverage license. Following the filing of an appeal, and submission of written briefs, the Board hears oral arguments in Northern and Southern California on the appropriateness of the Department's decision. The Board then prepares, publishes, and distributes a formal written opinion. A party seeking review of an Appeals Board decision must file a petition for writ of review with the Court of Appeal.

The Governor proposes total expenditures of \$968,000 (no General Fund), - an increase of \$52,000 from the current year. The Administration did not submit any Budget Change Proposals for ABC Appeals Board.

Action: Budget approved on a 2-1 vote, with Senator McClintock voting no.

2150 Department of Financial Institutions

The Department of Financial Institutions (DFI) was established effective July 1, 1997, to regulate depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. In addition, the Department licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and/or travelers' checks or licensed to engage in the business of transmitting money abroad, and business and industrial development corporations. Programs are supported by assessment of the various industries, license and application fees, and charges for various other services.

The Governor proposes total expenditures of \$23.7 million (no General Fund), - an increase of \$57,000 from the current year. The Administration did not submit any Budget Change Proposals for DFI.

Action: Budget approved on a 2-1 vote, with Senator McClintock voting no.

Staff Recommendation: Approve the budgets.

0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency is a member of the Governor's Cabinet and oversees departments including:

- Alcoholic Beverage Control
- Corporations
- Housing and Community Development
- California Highway Patrol
- Motor Vehicles
- Financial Institutions
- Real Estate
- Managed Health Care
- Transportation
- Stephen P Teale Data Center

In addition, the Secretary's Office oversees programs, including the following, which are budgeted directly in the Secretary's Office:

- Infrastructure and Economic Development Bank
- Film Commission
- Division of Tourism
- Small Business Loan Guarantee Program
- Off. of Military & Aerospace Support
- Manufacturing Technology Program

The Governor proposes total expenditures of \$18.3 million (\$5.3 million General Fund) for the Office of the Secretary – a reduction of \$2.7 million.

Budget Changes proposed for Consent / Vote Only

1. **BT&H Agency / CHP Staffing (BCP #1).** The Administration requests to move two positions currently in the BT&H Agency budget to the CHP budget. This proposal would result in no net change in cost to the State. The CHP performs certain administrative and budget activity for BT&H Agency programs and offices that are too small to employ their own budget or administrative staff. Currently, two positions received by the BT&H Agency as part of the Technology, Trade, and Commerce Agency (TTCA) elimination are on loan to CHP to perform these Administrative functions for former TTCA programs and offices. This proposal would permanently move these two positions from BT&H to the CHP.

Action: *Issue approved on a 2-1 vote, with Senator McClintock voting no.*

2. **California Welcome Center Staffing (BCP #2).** Assembly Bill 1356 (Chapter 296, Statutes of 2004), authorized the establishment of a system of California Welcome Centers to be overseen by the Office of Tourism. A Center can be operated by a chamber of commerce, local government, or private entity. The operating entities pay fees to the state to cover the State's costs of administering the program. This proposal would authorize funding for a half-time position (\$55,000 special fund) in the Office of Tourism to administer the program.

Action: *Budget approved on a 2-1 vote, with Senator McClintock voting no.*

Staff Recommendation: Approve these requests.

Vote on Consent issues:**BT&H Agency Issues for Discussion / Vote**

- 1. Infrastructure and Economic Development Bank – Staffing (BCP #3).** The Infrastructure Bank requests \$100,000 (California Infrastructure and Economic Development Bank Fund) and 1 position. Assembly Bill 1554 (Chapter 263, Statutes of 2004), authorized the West Contra Costa Unified School district and the Oakland Unified School District to use lease financing to repay their existing emergency apportionments, and provided an emergency loan to the Vallejo City Unified School District – also to be repaid with lease financing. The legislation directs the California Infrastructure and Economic Development Bank to issue lease revenue bonds that will provide approximately \$160 million for the General Fund and will provide a non-General Fund source of funding in the future years for emergency apportionments to school districts. AB 1554 appropriated \$100,000 and one position to “fulfill” the provisions of the bill. This budget proposal indicates the workload associated with AB 1554 is ongoing and requests permanent continuation of the funding (special fund) and authority for this position.

Staff Recommendation: If the bonds authorized by AB 1554 are all issued at the same time, this would not appear to be an ongoing workload. The Administration should explain the timing of the bond issuance and why AB 1554 creates an ongoing workload. Keep item open.

Action: *Kept item open – staff to gather more information.*

- 2. Small Business Loan Guarantee Program – Performance-Based Grants.** The Small Business Loan Guarantee Program is administered by 11 non-profit Financial Development Corporations (FDCs). The state pays the FDCs for their administration of the program, under contractual agreements with each FDC. Last year, the Legislature added requirements to the program through provisional language. The Administration deleted the two provisions in the proposed budget bill for 2005-06. The 2004-05 language reads as follows:

0520-011-0001—For transfer, upon order of the Director of Finance, to the Small Business Expansion Fund. 3,988,000
Provisions:

1. Beginning with the 2004–05 fiscal year, the total income received by a financial development corporation for each loan guarantee completed may not exceed \$6,000 per guarantee. Total income includes funds received from the state and fees charged to loan guarantee recipients. The Secretary of Business, Transportation and Housing may exempt up to 25 percent of the loan guarantees contracted for by the agency from this requirement. It is the intent of the Legislature that state funding of the Small Business Loan Guarantee Program be 100 percent performance-based by the 2005–06 fiscal year.
2. The Department of Finance is hereby authorized to transfer any savings in this item to the General Fund at the end of the 2004–05 fiscal year. It is anticipated that the amount to be transferred to the General Fund will be \$248,000.

Staff Comment: The language was added last year due to concerns that some FDCs were receiving excessive State funding when measured per loan guarantee. The Administration indicated concern that since some FDCs had been recently established and some had lower loan-guarantee trust funds, that the Agency Secretary should have the authority is exempt 25 percent of the loan guarantees contracted from performance-based payment requirements.

While last year’s provisional language cited the intent of the Legislature for the program to be 100 percent performance-based by 2005-06, the Agency indicates it would prefer to retain the language in the 2004-05 contracts. The 2004-05 language provides base funding along with a funding cap that requires FDCs to return funding that exceeds the product of the number of loan guarantees made and \$6000. Note, the contracts with three FDCs do not contain the funding cap requirement, pursuant to the discretionary authority provided to the Secretary in Provision 1.

Staff Recommendation: The Administration should discuss the progress made in moving toward a 100-percent performance-based program, and why they don’t believe a 100-percent performance-based program is prudent for 2005-06. Leave item open.

Action: *Kept open –staff to gather more information.*

1955 Department of Technology Services

The Department of Technology Services (DTS) represents the Governor's reorganization proposal to consolidate the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. To date, the actual reorganization plan has not been submitted to the Little Hoover Commission or the Legislature.

Proposed Budget: The Governor proposes total expenditures for DTS of \$235.4 million (funded by reimbursements from State departments, including General Fund departments, that use the services). The table below shows the base 2004-05 funding for the existing three entities and the 2005-06 funding proposed for DTS. Note, the Systems Integration Division (SID) of the Health and Human Services Data Center is excluded from the DTS consolidation and is proposed to be transferred to the Health and Human Services Agency. No position savings is proposed in the short-term from the consolidation.

| Proposed Budget: The Department of Technology Services (in 1,000) | | | | |
|---|-------------------|--|----------------------------------|------------------|
| | Teale Data Center | Health & Human Services Data Center (less SID) | DGS - Office of Network Services | Totals |
| 2004-05 Budget | \$101,063 | \$120,874 | \$10,408 | \$232,345 |
| Compensation Adjustments | 2,055 | 1,453 | 203 | 3,711 |
| Negative Baseline Adjustments | -11,640 | -3,449 | 0 | -15,089 |
| Miscellaneous Baseline Adjustments | 45 | 2,776 | 62 | 2,883 |
| Provision 5 | na | 1,966 | na | 1,966 |
| Capacity BCPs | 8,077 | 1,553 | 0 | 9,630 |
| Total 2005-06 (DTS Budget) | \$99,600 | \$125,173 | \$10,673 | \$235,446 |

DTS Issues for Discussion / Vote

- 1. Consolidation and Budgetary Treatment.** The official reorganization plan has not been submitted to the Little Hoover Commission or provided to the Legislature. Preferably, the Legislature will be have the opportunity to review (and approve or reject) the Administration's reorganization plan, prior to taking any budget action on the consolidated Department of Technology Services. The description of the reorganization plan below is based on information provided by the State Chief Information Officer and the Teale Data Center. No statutory language has been provided by the Administration.

Tentative Reorganization plan: According to preliminary documents provided by the Administration, the consolidation plan will include the creation of a new Technology Services Board, composed of the State Chief Information Officer, the Director of Finance, the Controller, and Agency Secretaries, to provide governance and budgetary oversight to DTS. The Administration proposes a continuous appropriation for the DTS in contrast to the current practice of Budget Act appropriations for the existing data centers. This proposal would discontinue the Legislature's oversight of data center budgets. While the Legislature confirms the Governor's choice for Teale Director, the Executive Officer of DTS would not require confirmation. Additionally, the Administration proposes that the DTS Board would set the compensation for the Chief Executive Officer and up to five deputy executive officers of the Department, without legislative review.

No position savings is proposed in the short-term from the consolidation. The Administration indicates positions would be internally redirected to handle the task of consolidation. Efficiencies that reduce baseline workload are anticipated, but the Administration suggests overall workload may increase as more departments would use DTS services.

Background. The Legislature has approved past legislation that moved the state toward data-center consolidation. AB 1752, (Chapter 225, Statutes of 2003) required the Department of Finance to convene a working group comprised of representatives of the California Health and Human Services Data Center, the Teale Data Center, the office of the Legislative Analyst, and client departments to develop a data center consolidation plan. The plan was required to result in savings of not less than \$3.5 million, General Fund, in 2004-05. The 2004 Budget Act, Control Section 15.00, provided authority to transfer \$3.5 million to the General Fund, and the Department of Finance indicates that transfer has been made. On January 10, 2005, the Administration provided the Legislature with the Chief Information Officer's *Recommendation on Data Center Consolidation*. On January 25, 2005, the Administration provided the *Department of Technology Services Project and Financial Overview*.

Legislative Analyst's Recommendations: In *the Analysis of the 2005-06 Budget Bill*, the Analyst indicates that consolidation would likely improve the state's technology services and reduce costs to departments. The Analyst agrees with the inclusion of the Department of General Services' Telecommunications Division in DTS and the Administrations proposal to require an annual external financial audit of DTS, which would be shared with the Legislature. The Legislative Analyst identifies five problems with the consolidation proposal and recommends solutions in the below table.

| LAO Recommendations to Solve Flaws In Proposed Consolidation | |
|--|--|
| Problem | Recommended Solution |
| <ul style="list-style-type: none"> Continuously appropriated revolving fund inconsistent with current practice and would limit legislative oversight. | <ul style="list-style-type: none"> Establish an annually appropriated revolving fund. |
| <ul style="list-style-type: none"> Legislature's budgetary and oversight role would be limited. | <ul style="list-style-type: none"> Eliminate TSB budgetary role. Establish an annually appropriated revolving fund. |
| <ul style="list-style-type: none"> Legislature would not confirm DTS Director. | <ul style="list-style-type: none"> Allow Governor to select DTS Director, with Senate confirmation. |
| <ul style="list-style-type: none"> DTS executive salaries would not be reviewed by the Legislature. | <ul style="list-style-type: none"> Eliminate TSB salary setting role. Require administration to include executive salaries at the proposed levels in the annual DTS budget. |
| <ul style="list-style-type: none"> Concerns regarding responsibilities and composition of TSB. | <ul style="list-style-type: none"> Change TSB responsibilities from budgetary to oversight. Change composition of TSB to include more IT expertise and perspectives outside of the administration. |

Staff Comment: The Administration has provided eight BCPs totaling \$9.6 million for DTS; however, with the continuous appropriation, the Technology Services Board can make budget adjustments without Legislative approval.

The Subcommittee may wish to ask the Administration the following:

- When will the Administration present its reorganization proposal?
- Why is the Administration proposing to reduce legislative oversight with the new consolidated entity, as outlined in the LAO table above?

Staff Recommendation: Leave the DTS budget open. Defer discussion on the BCPs until the reorganization plan is received. Direct staff to work with the Administration on language for a Budget Bill appropriation, so the language is ready for consideration at a future hearing. The Subcommittee should discuss any concerns it has with the consolidation plan, as the Administration may be able to take these under advisement as they finalize their proposal.

Action: *Kept open –staff to work with the Administration on language for a Budget Act appropriation. The Administration will provide the statutory language needed to implement DTS within 10 working days..*

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state.

The Governor proposes total expenditures of \$44.8 million (no General Fund), - an increase of \$99,000 from the current year.

Issues

- 1. Office Renovations (BCP #1).** The Department requests a total of \$245,000 (special fund) in one-time funding - \$100,000 for renovations in the Van Nuys State Building and \$220,000 for renovations in their Santa Ana State Building. The request is partially offset savings from new leases from other facilities such that the request totals \$246,000. Improvements include new modular workstations as well as changes to doors and walls.

Staff Recommendation: Approve the request.

Action: *Kept open –move item to a future hearing when the Department of General Services (DGS) is heard. (DGS is currently schedule for the April 13th hearing)*

2180 Department of Corporations

The Department of Corporations administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries.

The Governor proposes total expenditures of \$31.1 million (State Corporations Fund), an increase of \$1.8 million.

Issues:

- 1. California Electronic Access to Securities Information (Cal-EASI) - Ongoing Operations Costs (BCP #1):** The Department requests a permanent augmentation of \$465,000 (special fund) for eight position upgrades (\$66,000), staff training (\$16,000) and consulting services (\$383,000) for continued operation of the Cal-EASI system which has previously been funded as a four-year pilot program. Total cost through 2004-05 is estimated at \$3.7 million (\$2.4 million appropriated, and \$1.3 million redirected) with all staffing through redirection. Cal-EASI includes an online filing system that allows for credit card payment, electronic filing of forms (includes scanned documents not filed on-line), and public on-line access to certain securities notice filings. The Department indicates the pilot project has been a success. Without the requested funding, the Department indicates it will not be able to maintain the existing functionality. Workload efficiencies were gained with the system; however, the hiring freeze and position eliminations resulted in staff reductions in excess of the efficiency gain.

Detail on request:

Position upgrades (\$66,000): The Department requests to upgrade seven Office Assistants to Office Technicians, and one Office Assistant to a Staff Services Analyst. The work of these positions requires technical program knowledge which meets the criteria for the higher levels. While Cal-EASI has produced some workload savings, the Department reports that three positions redirected for Cal-EASI were eliminated in vacant position reductions and the number of filings has increased.

Training (\$16,000): Funds are requested for the information technology staff to maintain and update the skills necessary for the day-to-day system administration, help desk, and programming of the system.

Consulting (\$383,000): Funds are requested for IT consultant services, software maintenance contracts, student assistants, data center services and the ongoing useful life replacement costs for equipment. The Department indicates consultant services are still needed to handle the more complex, difficult imaging and workflow and resolution of any system errors or extended downtimes that may occur.

Staff Recommendation: Approve the request.

Action: *Issue approved on a 2-1 vote, with Senator McClintock voting no.*

- 2. California Electronic Access to Securities Information (Cal-EASI) – Expansion (BCP #2):** The Department requests \$203,000 (special fund, \$174,000 of this one-time) to expand the Cal-EASI system to include two additional securities filing exemption notices. Cal-EASI currently accepts 74 percent of the filings received and this expansion would increase this number to 84 percent. The ongoing cost of \$30,000 is for miscellaneous supplies and training and ongoing costs related to hardware and software maintenance contracts. Ongoing savings from system efficiencies is expected to be \$31,500; however, the Department requests to retain this savings to handle an increase in file volume, ranging from 14 percent to 28 percent.

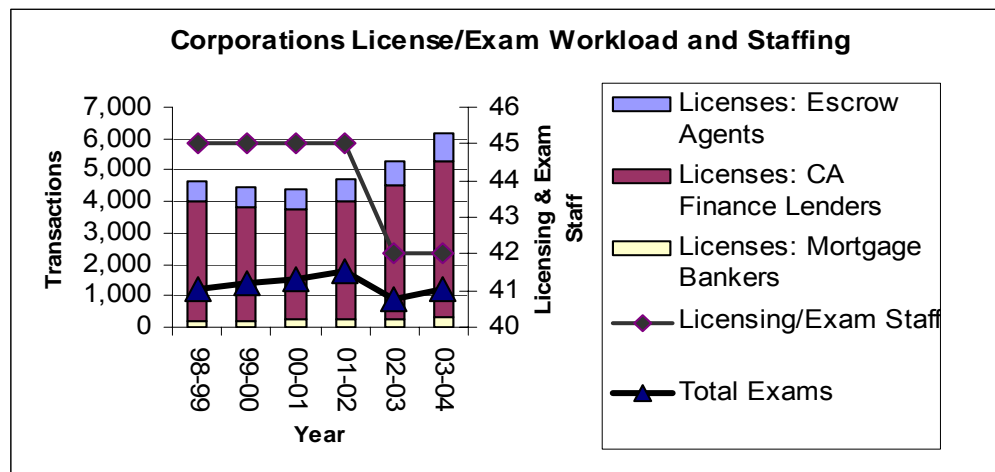
Legislative Analyst Recommendation: In the *Analysis of the 2005-06 Budget Bill*, the Analyst recommends that the Legislature reduce Cal-EASI funding for Item 2180-001-0067 by \$40,000 to account for the double-budgeting of server replacement.

Staff Recommendation: Adopt budget request minus \$40,000 in one-time funding, per LAO recommendation.

Action: *Issue approved minus \$40,000 on a 2-1 vote, with Senator McClintock voting no.*

3. Additional Examiners – Mandated Exams and Licensing Workload (BCP #3):

The Department requests \$1.489 million (special fund) and 16 positions (two positions are one-year limited-term, 5 positions are two-year limited-term, and the rest are permanent) to deal with increased workload. The Department reports licensing and exam workload has increased since 1998-99, and staffing for this function has declined pursuant to vacant-position reductions. The chart below shows the trends.



Depending on the type of exam, statute requires or the Department determined, that examinations should be performed on licensees as often as deemed necessary, but not less than once every 4 years. As the number of licenses increases, the number of exams must also increase to maintain the same exam cycle. The chart indicates that exams have not kept pace with licensees. The Department is requesting a 29-percent increase in staffing (from the 1998-99 base) for a 34 percent increase in licensees.

Staff Recommendation: Approve the request.

Action: Issue approved on a 2-1 vote, with Senator McClintock voting no.

- 4. Continuation of Seniors Against Investment Fraud Program (BCP #4):** The Department requests \$400,000 (special fund) and 1 position to continue this three-year-old program that previously has been funded by a grant from the Criminal Justice Programs Division of the Governor's Office of Emergency Services. With help from volunteers from organizations such as the Association of Retired Persons and the Retired Senior Volunteers Program, the program conducts outreach training and distributes information packets to senior. The program aims to reduce investment fraud in areas such as insurance, annuities, and ponzi schemes.

Legislative Analyst Recommendation: In the *Analysis of the 2005-06 Budget Bill*, the Analyst recommends that the Legislature deny this funding request. The Analyst indicates it is difficult to draw definitive conclusions about the program's direct benefits on reducing investment fraud. Additionally, the Department of Justice contains a Bureau of Medical Fraud and Elder Abuse that also works to reduce investment fraud on seniors.

Staff Recommendation: Approve the funding requested, but change it from permanent to two-year limited term. This will require the Department to again evaluate and justify the program in two years and also allow another assessment of the fiscal ability of the State Corporations Fund to support this program.

Action: *Issue kept open to look at the overlap with this program and the Department of Justice.*

- 5. Additional Examiners – Abusive Lending Enforcement (BCP #5):** The Department requests three positions and \$287,000 (special fund) for the additional workload associated with AB 2693 (Chapter 940, Statutes of 2004, Wiggins). AB 2693 added a provision to California Financial Code that prohibits finance lenders from failing to disburse funds in accordance with a commitment to make a loan, or intentionally delaying the closing of a loan for the purpose of increasing costs to the borrower. The Assembly analysis of the bill indicated that these practices are already illegal under Residential Mortgage Law, but not described as prohibited acts under the California Financial Code.

Staff Comment. The Administration's analyses of AB 2693 indicated it would not have a fiscal impact. The Department indicated that late amendments to the bill changed the fiscal impact and the Department did not have time to submit a new analysis. Staff looked at the final amendments to AB 2693, and they did not include changes to the section of code referenced as the workload-drivers in the BCP.

Staff Recommendation: Deny this request. The Department should try to absorb any new workload within existing resources, as was anticipated at the time AB 2693 was approved.

Action: *Issue kept open – staff to look again at the written documentation concerning AB 2693.*

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes \$563.2 million (\$13.3 million General Fund) in total expenditures for the department – a decrease of \$34.9 million.

Budget Changes Proposed for Consent / Vote Only

- 1. Mobilehome-Manufactured Home Registration and Titling Program Staffing (BCP #1).** The Department requests to establish five additional permanent positions (to existing permanent staffing of 60.5 positions) to be funded within existing resources. HCD is charged with processes mobilehome registration and titling documents. HCD is currently performing this five-positions-worth of workload with temporary-help staff. During the 1990s, the program had a backlog of over 120,000 documents with turnaround time as high as two years, and staffing was augmented to achieve the goal of a 15 day turnaround. Over the past couple of years, HCD has added temporary staffing to maintain the 15 day goal, while also improving efficiency – the production rate has increased from 1.65 applications per hour in 2002, to 2.3 applications per hour currently. The Department expects the workload to stay at level which will require this extra staffing on a permanent basis.

Action: *Issue approved on a 2-1 vote, with Senator McClintock voting no.*

- 2. Federal HOME Program Staffing (BCP #2).** HCD requests position and expenditure authority (\$634,000 federal funds) to make five limited-term HOME-Program positions permanent. This request would continue staffing at the existing level of 30 positions. The HOME Program is the largest federal block grant to State and local governments created exclusively for the creation and preservation of affordable housing. The federal Housing and Urban Development Department (HUD) allows the state to use 10 percent of the HOME annual allocation for administrative costs. No state match is required. HCD received the grant funds on behalf of the state, and then makes the funds available to eligible applicants in cities and counties that do not receive a direct federal allocation.

Action: *Issue approved on a 2-1 vote, with Senator McClintock voting no.*

Staff Recommendation: Approve these two requests.

Housing and Community Development Issues for Discussion / Vote

- 1. Emergency Housing Assistance Program (EHAP) - Funding.** The Administration proposes an EHAP funding reduction of \$864,000 – to \$3.1 million (General Fund). The Emergency Housing Assistance Program (EHAP) provides funds for homeless shelter programs through minimum county allocations of \$30,000. The Program funds basic homeless shelter operating costs such as rent, utilities, and salaries of core administrative staff. A history of program funding is outlined in the below table.

| Funding for Emergency Housing Assistance (in millions) | | | | | | | | |
|--|----------|---------|---------|---------|---------|---------|-----------|------------|
| | 1998-99* | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05** | 2005-06*** |
| Funding | \$2.0 | \$2.0 | \$39.0 | \$13.3 | \$5.3 | \$5.3 | \$4.0 | \$3.1 |
| * Supported with special funds in 1998-99, General Fund thereafter. | | | | | | | | |
| ** Funding was augmented by the Legislature to \$5.3 million, but vetoed by the Governor | | | | | | | | |
| *** Proposed by the Governor | | | | | | | | |

Staff Comment: The Administration indicates the funding reduction for the budget year is a policy, not a caseload, decision. Homeless programs are primarily funded at the local level. HCD estimates that \$3.1 million would serve 4,700 persons per day, while \$4.0 million would serve 6,100 persons per day. The Department indicates federal homeless funding is expected to increase from \$6.7 million in 2004-05 to \$7.3 million in 2005-06; however, the 2005-06 number is an estimate.

Staff Recommendation: Keep issue open pending May Revision.

Action: *Issue kept open for further consideration of the funding level.*

- 2. Daily Rental Rates for Farmworker Housing:** In July 2004, HCD increased rental rates for farmworker housing operated by their Office of Migrant Services. HCD indicates they do not plan to increase rates again in 2005. The below table shows the recent rent increase per size of unit.

| Daily Rental Rates by Size of Unit | | | |
|---|-----------|-----------|-----------|
| | 2 Bedroom | 3 Bedroom | 4 Bedroom |
| 2003-04 Rates | \$7.50 | \$8.00 | \$8.50 |
| 2004-05 Rates | \$9.50 | \$10.00 | \$10.50 |
| 2005-06 Rates* | \$9.50 | \$10.00 | \$10.50 |
| * HCD indicates it does not intend to increase rents in 2005. | | | |

Last year, the Legislature approved a budget trailer bill (SB 1102, Chapter 227, Statutes of 2004) that prohibited HCD from increasing rents for residents of any Office of Migrant Services Facility to a level that exceeds 30 percent of the average annualized household incomes of residents of the facility without specific legislative authorization. However, this language was chaptered out by AB 868 (Chapter 868, Statutes of 2004).

HCD indicates that the current rents fall below 30 percent of the average annualized household incomes of residents. Rental income helps cover the operating costs of the migrant centers and the July 1, 2004, rent increase resulted in about a \$500,000 annual revenue gain.

Staff Recommendation: Approve trailer bill language (see Attachment I on page 21) that would constrain rents for residents of Office of Migrant Services facilities to a level not to exceed 30 percent of the average household incomes of center residents unless specific legislative authorization for a higher rent level has been received. This language is identical to the language the Subcommittee approved last year.

Action: *Trailer-bill language approved on a 2-1 vote, with Senator McClintock voting no.*

- 3. Economic Development Areas – Administrative Funding.** The State currently designates four types of economic development areas intended to attract and retain businesses in economically-challenged communities. Currently, there are 39 Enterprise Zones (EZs), eight Local Agency Military Base Recovery Areas (LAMBRAs), two Manufacturing Enhancement Areas (MEAs), and one Targeted Tax Area (TTA). Last year, a budget trailer bill (SB 1097) provided HCD authority until July 1, 2006, to impose a fee, not to exceed \$10, for each application for a Enterprise Zone hiring tax credit voucher. Businesses are only required to pay the fee if they choose to take advantage of the tax credit. This fee funds the State's cost of the Economic Development Areas Programs (\$668,000 and 6 positions), which would otherwise be a General Fund expense. Statute does not currently allow for the imposition of fees to cover the State's cost of the LAMBRA, MEA, and TTA programs.

Statutory amendments that would include LAMBRAs, MEAs, and TTAs in the fee structure, remove the EZ sunset date, and delete the refund requirement for a rejected EZ application, are on Attachment II (page 22) of this agenda.

Staff Comment: There are approximately 55,000 businesses using the EZ tax credit and only about 2,300 businesses using tax credits in all the other economic development areas. According to HCD, there is not an administrative problem with also requiring the businesses that use the other tax-credit programs to help support the State's administrative cost of the programs. Removing the EZ sunset date would save the State approximately \$668,000 (General Fund) in 2006-07.

Staff Recommendation: Leave open.

Action: *Issue kept open so trailer-bill language could be further reviewed with input from interested parties.*

4. Office of Migrant Services Reconstruction Plan (BCP #3). HCD requests to redirect \$9.5 million of Proposition 46 bond funds from the Joe Serna, Jr. Farmworker Housing Grant Program to the Office of Migrant Services (OMS) for the following purposes:

- \$6.23 million to complete three migrant centers currently under construction and/or in the predevelopment stage but in need of supplemental funds due to cost escalations.
- \$2.42 million to continue the replacement of migrant center child care buildings that have outlived their useful lives.
- \$0.85 million to construct a required water system and perform long-delayed road and drainage repairs at one migrant center.

The Office of Migrant Services operates 2,103 units of family housing that provide seasonal housing to approximately 11,000 farm workers and family members annually. Privately operated labor camps provide some 26,000 units, most often for single workers.

Proposition 46, approved in 2002, provided \$25 million for the Joe Serna, Jr. Farmworker Housing Grant Program to encourage non-state entities to construct more farmworker housing. Grant applications have been below expectations – with only 3 applications approved totaling less than \$3 million. Current law caps the amount of this funding available for Office of Migrant Services farmworker housing at \$5.5 million. This request includes trailer bill language that would increase that cap to \$15.0 million.

If this request is denied, HCD indicates the alternative options would be to reduce the number of current units (to redirect funding), increase rental charges, or augment General Fund support.

Statutory change is required to implement this request. The language submitted by the Administration is Attachment III (page 26) to this agenda.

Staff Recommendation: Approve the request including trailer-bill language.

Action: *Trailer-bill language approved on a 2-1 vote, with Senator McClintock voting no.*

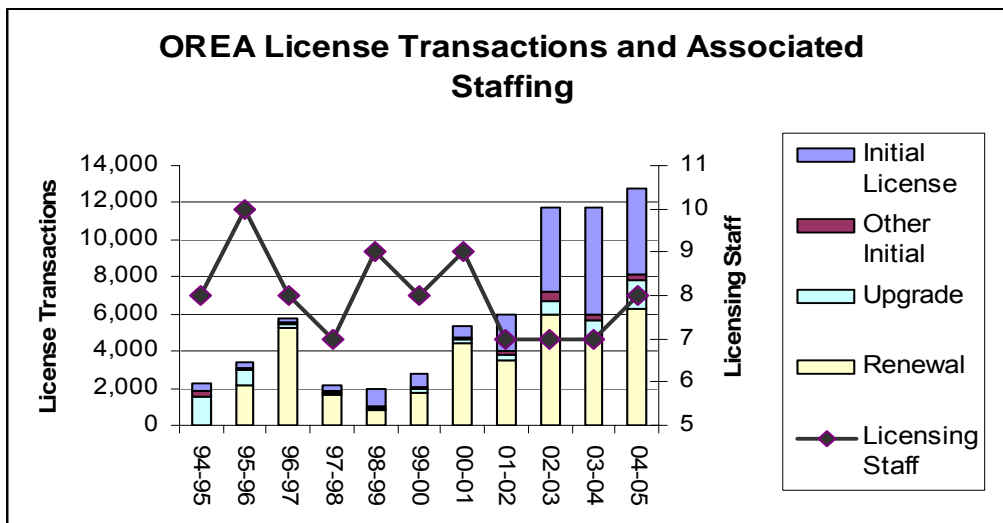
2310 Office of Real Estate Appraisers

The Office of Real Estate Appraisers (OREA) administers a program for licensing of real estate appraisers in federally-related loan transactions. All appraisals for federally regulated real estate financing transactions must be conducted by persons licensed in accordance with applicable state standards. In addition, certain appraisals, because of the size of the real property or complexity involved, must be performed only by a state-licensed appraiser.

The Governor proposes \$4.1 million (no General Fund) in total expenditures for OREA – an increase of \$90,000. The Governor did not propose any policy budget changes for the department.

Issue

License Processing Turnarounds. Committee staff received a complaint about delays in OREA's processing of real estate appraisers' licenses. OREA reports that initial licenses averaged 34 days in years 1994-95 through 2001-02; however, they averaged 84 days in years 2002-03 through 2004-05. OREA is funded by industry and has a fund balance sufficient to support temporary help positions to reduce processing times. The chart below shows historic OREA license volume and staffing. OREA indicates it expects the real estate market to cool, and if that occurs, it will be able to reduce transaction times with existing staff. If the volume of licenses stays at the 2002-03 and 2003-04 levels, OREA will likely have problems reducing wait times.



Staff Recommendation: Augment funding by \$43,000, Real Estate Appraisers Regulation Fund, for one-year limited-term for a temporary-help position to improve licensing turnaround times.

Action: *No action taken on staff recommendation or proposed budget; therefore, budget is approved.*

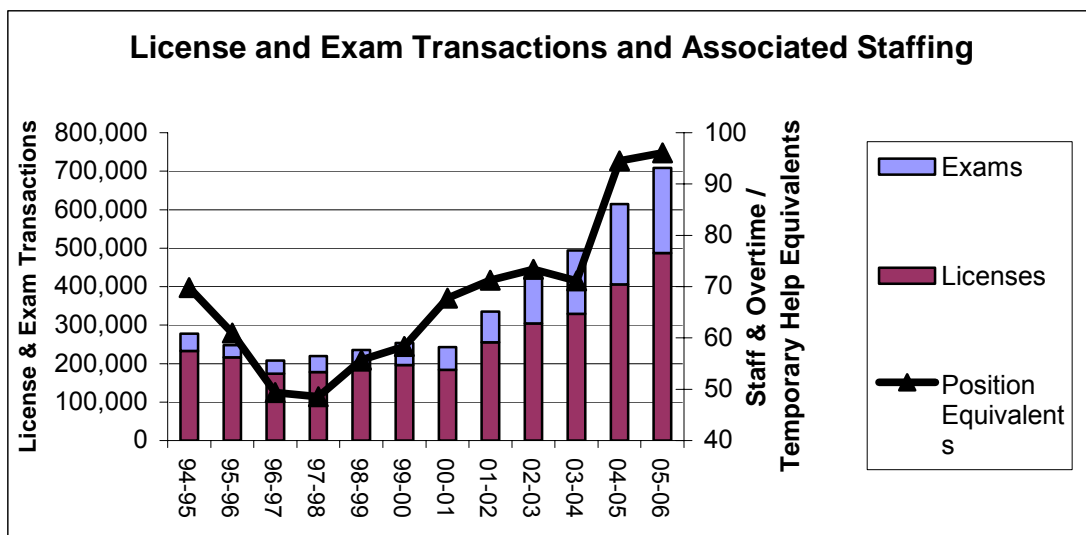
2320 Department of Real Estate

A primary objective of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes \$34.6 million (no General Fund) in total expenditures for the department – an increase of \$1.6 million.

Issue

1. **Workload Augmentation (BCP #1).** The Administration requests a two-year limited-term augmentation of \$445,000 (special fund) to fund 16 new temporary-help positions to process real estate examination and license transactions in a more-timely manner. The Department indicates that use of temporary help and overtime has reduced exam and license processing from 175 days to 83 days (as of June 30, 2004). Without the funding augmentation, the Department projects that processing times will again increase. Last year, the Legislature approved \$775,000 (special fund) and 13.0 positions (12.4 personnel years) on a permanent basis to address department-wide workload issues. However, the volume of exam and license workload in 2004-05 has exceeded last year's expectations, and the Department is requesting additional limited-term temporary-help funding. The chart below compares staffing and workload (actual and projections) – overtime and temporary help hours were converted to annual position equivalents assuming 1,840 work-hours per year. Data was provided by the Department; however, the Department notes the data exclude additional support categories that have also increased workload in recent years.



Staff Comment: In addition to this requested augmentation, the Department of Finance approved a two-year funding augmentation \$249,000 for overtime associated with license and exam workload. This request was not submitted as a Budget Change Proposal but included in the budget galley combined with other adjustments with the title "Various baseline adjustments."

Staff Recommendation: The Subcommittee may wish to ask the Department of Finance why the \$249,000 overtime augmentation was treated as a baseline adjustment and not provided to the Legislature as a Budget Change Proposal. Staff understands there has been a change in Finance policy concerning how budget changes are reported to the Legislature.

Staff recommends approval of the request.

Action: Issue approved on a 3-0 vote.

Attachment I

Amendments to Section 50710.1 of the Health and Safety Code approved last year, but chaptered out. These relate to implementing a statutory cap on rent increases for residents of Office of Migrant Services housing. (See Issue #2 on page 16 of this agenda).

50710.1. (a) If all the development costs of any migrant farm labor center assisted pursuant to this chapter are provided by federal, state, or local grants, and if inadequate funds are available from any federal, state, or local service to write-down operating costs, the department may approve rents for that center which are in excess of rents charged in other centers assisted by the Office of Migrant Services. However, notwithstanding any other provision of law, commencing with the 2005 growing season the Department of Housing and Community Development shall not increase rents for residents of Office of Migrant Services facilities to a level which represents more than 30 percent of the average annualized household incomes of center residents without specific legislative authorization for such increase. ~~Prior~~ prior to approving these rents, the department shall consider the adequacy of evidence presented by the entity operating the center that the rents reimburse actual, reasonable, and necessary costs of operation. ~~The department may not increase any rent charged at a migrant farm labor center during the 2003-04 fiscal year.~~

Attachment II**Amendments to Government Code that relate to proposed changes the financing of economic development areas. (See Issue #3 on page 17 of this agenda).**

1) Amend Section 7076(c) and (d) of the Government Code to read:

(c) The department may establish, charge, and collect a fee as reimbursement for the costs of its administration of this chapter. The department shall assess each enterprise zone *and manufacturing enhancement area* a fee of not more than ten dollars (\$10) for each application ~~it accepts~~ for issuance of a certificate pursuant to *subdivision (j) of Section 17053.47*, subdivision (c) of Section 17053.74, ~~of the Revenue and Taxation Code and~~ subdivision (c) of Section 23622.7, *or subdivision (i) of Section 23622.8* of the Revenue and Taxation Code. The enterprise zone *or manufacturing enhancement area* administrator ~~may~~ shall collect this fee at the time ~~it accepts~~ an application is submitted for issuance of a certificate. ~~This subdivision shall become inoperative on July 1, 2006, and shall have no force or effect on or after that date.~~

~~(d) Any fee assessed and collected pursuant to subdivision (c) shall be refundable if the certificate issued by the local government pursuant to subdivision (c) of Section 17053.74 of the Revenue and Taxation Code and subdivision (c) of Section 23622.7 of the Revenue and Taxation Code is not accepted by the Franchise Tax Board.~~

2) Amend Government Code Section 7086(d) as follows:

(d) The department shall adopt regulations governing the imposition and collection of fees pursuant to ~~subdivisions (c) and (d)~~ *subdivision (c) of Section 7076*, and the issuance of certificates by local governments pursuant to *subdivision (j) of Section 17053.47*, subdivision (c) of Section 17053.74, ~~of the Revenue and Taxation Code and~~ subdivision (c) of Section 23622.7, *or subdivision (i) of Section 23622.8* of the Revenue and Taxation Code. The regulations shall provide for a notice or invoice to fee payers as to the amount and purpose of the fee. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall remain in effect for no more that 360 days unless the agency complies with all the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 as required by subdivision (e) of Section 11346.1.

3) Amend Government Code Section 7097 by adding subdivision (g) as follows:

(g)(1) The department may establish, charge, and collect a fee as reimbursement for the costs of its administration of this chapter. The department shall assess each targeted tax area a fee of not more than ten dollars (\$10) for each application for issuance of a certificate pursuant to subdivision (d) of Section 17053.34 of the Revenue and Taxation Code and subdivision (d) of Section 23634 of the Revenue and Taxation Code. The

targeted tax area administrator shall collect this fee at the time an application is submitted for issuance of a certificate.

(2) The department shall adopt regulations governing the imposition and collection of fees pursuant to this subdivision and the issuance of certificates by local governments pursuant to subdivision (d) of Section 17053.34 of the Revenue and Taxation Code and subdivision (d) of Section 23634 of the Revenue and Taxation Code. The regulations shall provide for a notice or invoice to fee payers as to the amount and purpose of the fee. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall remain in effect for no more than 360 days unless the agency complies with all the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 as required by subdivision (e) of Section 11346.1.

4) Add Section 7114.2 to the Government Code as follows:

7114.2(a) The department may establish, charge, and collect a fee as reimbursement for the costs of its administration of this chapter. The department shall assess each LAMBRA a fee of not more than ten dollars (\$10) for each application for issuance of a certificate pursuant to subdivision (c) of Section 17053.46 of the Revenue and Taxation Code and subdivision (c) of Section 23646 of the Revenue and Taxation Code. The LAMBRA administrator shall collect this fee at the time an application is submitted for issuance of a certificate.

(b) The department shall adopt regulations governing the imposition and collection of fees pursuant to this section and the issuance of certificates by local governments pursuant to subdivision (c) of Section 17053.46 of the Revenue and Taxation Code and subdivision (c) of Section 23646 of the Revenue and Taxation Code. The regulations shall provide for a notice or invoice to fee payers as to the amount and purpose of the fee. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall remain in effect for no more than 360 days unless the agency complies with all the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 as required by subdivision (e) of Section 11346.1.

5) Amend Rev and Tax Code 17053.34(d) to read:

(d) The qualified taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, ~~or~~ the local county or city Job Training Partnership Act administrative entity, ~~or~~ the local county GAIN office or social services agency, or the local government administering the targeted tax area as appropriate, a certification that provides that a qualified employee meets the eligibility requirements specified in clause (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this~~

~~purpose.~~ The Department of Housing and Community Development shall develop regulations governing the issuance of certificates by local governments pursuant to paragraph (3) of subdivision (g) of Section 7097 of the Government Code and shall develop forms for this purpose.

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

6) Amend Rev and Tax Code 17053.46(c) to read:

(c) For qualified disadvantaged individuals or qualified displaced employees hired on or after January 1, 2001, the taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office, or social services agency, or the local government administering the LAMBRA as appropriate, a certification that provides that a qualified disadvantaged individual or qualified displaced employee meets the eligibility requirements specified in subparagraph (C) of paragraph (4) of subdivision (b) or subparagraph (A) of paragraph (6) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this purpose.~~ The Department of Housing and Community Development shall develop regulations governing the issuance of certificates by local governments pursuant to subdivision (c) of Section 7114.2 of the Government Code and shall develop forms for this purpose.

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

7) Amend Rev and Tax Code 17053.47 by adding subdivision (j) to read:

(j) The qualified taxpayer shall do both of the following:

(1) Obtain from the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office or social services agency, or the local government administering the manufacturing enhancement area, a certification that provides that a qualified disadvantaged individual meets the eligibility requirements specified in of paragraph (5) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates by local governments pursuant to subdivision (d) of Section 7086 of the Government Code and shall develop forms for this purpose.

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

8) Amend Section 23622.8 of the Rev & Tax Code by adding subdivision (i) as follows:

(i) The qualified taxpayer shall do both of the following:

(1) Obtain from the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office

or social services agency, or the local government administering the manufacturing enhancement area, a certification that provides that a qualified disadvantaged individual meets the eligibility requirements specified in of paragraph (5) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates by local governments pursuant to subdivision (d) of Section 7086 of the Government Code and shall develop forms for this purpose.

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

9) Amend Rev and Tax Code Section 23634(d) to read:

(d) The qualified taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, ~~or~~ the local county or city Job Training Partnership Act administrative entity, ~~or~~ the local county GAIN office or social services agency, ~~as appropriate or the local government administering the targeted tax area,~~ a certification that provides that a qualified employee meets the eligibility requirements specified in clause (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this purpose. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates by local governments pursuant to paragraph (3) of subdivision (g) of Section 7097 of the Government Code and shall develop forms for this purpose.~~

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

10) Amend Rev and Tax Code Section 23646(c) to read:

c) For qualified disadvantaged individuals or qualified displaced employees hired on or after January 1, 2001, the taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, the administrative entity of the local county or city for the federal Job Training Partnership Act, or its successor, the local county GAIN office, or social services agency, ~~or the local government administering the LAMBRA as appropriate,~~ a certification that provides that a qualified disadvantaged individual or qualified displaced employee meets the eligibility requirements specified in subparagraph (C) of paragraph (4) of subdivision (b) or subparagraph (A) of paragraph (6) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this purpose. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates by local governments pursuant to subdivision (c) of Section 7114.2 of the Government Code and shall develop forms for this purpose.~~

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

Attachment III

Administration-proposed amendments to Health and Safety Code Section 53533 (a) (4) (A), relating to the use of Proposition 46 bond funds for the purpose of reconstructing migrant centers operated through the Office of Migrant Services in the Department of Housing and Community Development. (See Issue #4 on page 18 of this agenda).

(A) Twenty-five million dollars (\$25,000,000) shall be used for projects that serve migratory agricultural workers as defined in subdivision (i) of Section 7602 of Title 25 of the California Code of Regulations. If, after July 1, 2003, funds remain after the approval of all feasible applications, the department shall be deemed an eligible recipient for the purposes of reconstructing migrant centers operated through the Office of Migrant Services pursuant to Chapter 8.5 (commencing with Section 50710) that would otherwise be scheduled for closure due to health or safety considerations or are in need of significant repairs to ensure the health and safety of the residents. Of the dollars allocated by this section, the department shall receive ~~five million five hundred thousand dollars (\$5,500,000)~~ fifteen million dollars (\$15,000,000) for these purposes.